Nova Scotia Municipal Finance Corporation

27th Annual Report
2007

Nova Scotia

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Message from the Chair

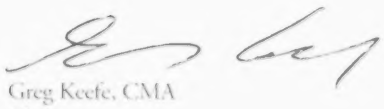
As Chair of the Nova Scotia Municipal Finance Corporation it is my pleasure to present the Nova Scotia Municipal Finance Corporation's 27th Annual Report for the 2006-2007 fiscal year.

The year 2006-2007 was another active time for the Corporation with its annual debenture issuance exceeding $100 million. The Corporation placed two debenture issues for $51.8 million and $55.2 million and participated in four loans with the Federation of Canadian Municipalities' Municipal Green Fund, resulting in total long term loan activity of $108.3 million during the fiscal year. It also disbursed $5.3 million in short term loans. Net income for the fiscal year was $244,543.

The Corporation also continued its leadership role in the area of financial management capacity building. Through its co-operation with the Association of Municipal Administrators of Nova Scotia and the Nova Scotia department of Service Nova Scotia and Municipal Relations, ten recommended financial best practices for Nova Scotia municipalities were developed in 2006-07.

The Corporation continues to focus on the results of the August 2004 client evaluation of its services and programs to ensure that the goals and objectives of the Corporation match those of our clients. The results confirmed that our clients are satisfied with the service we provide for low-cost long-term capital financing. They also supported the Corporation's movement toward financial management capacity building in municipalities in Nova Scotia. To this end, the Corporation has been a partner in developing best practices for financial management (referred to above) and has developed a debt affordability model, which a number of municipalities are piloting. Results from the survey have been used as benchmarks for a number of performance measures that have been incorporated in the Corporation's business plan.

At this time I would like to thank the Board Members, the staff of the Corporation and the staff of the provincial Departments of Service Nova Scotia and Municipal Relations, Finance, and Justice for their advice and assistance throughout the year.



Greg Keefe, CMA
Chair

How The Corporation Functions

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 301 of the Revised Statutes of Nova Scotia, 1989. The legislative authority for the Corporation can be found in the Municipal Finance Corporation Act.

Mission and Purpose

The mission of the Corporation is to provide financing to its clients for approved capital projects at competitive rates, within acceptable risk parameters and to provide advice and assistance to clients regarding financial management.

The Corporation was created with the objective of providing financial assistance for municipalities, municipal enterprises, school boards and hospitals through a centralized borrowing authority. The way in which the Corporation fulfils its purpose is through the issuance of pooled debenture issues. Pooling of borrowing requirements eliminates the need for individual municipalities to negotiate and administer their own debenture issues.

All municipalities and municipal enterprises must finance their external capital requirements through the Corporation. Exceptions exist for projects that are financed through short-term financing and certain projects for which funds may be borrowed from other governments. Most school board and hospital capital projects are financed directly by the Province of Nova Scotia.

The Corporation partners with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia and Municipal Relations, as well as with other professional associations in the building of financial management capacity in local governments across Nova Scotia.

Administration

A Board of Directors appointed by the Governor-in-Council governs the Corporation. The Municipal Finance Corporation Act requires that 40 per cent of the board be municipal representatives. There are currently five Directors on the Board: two members are senior public servants, two members are appointed upon the recommendation of the Union of Nova Scotia Municipalities and the fifth member is appointed from the community at large.

The Corporation is self-funded. The Minister of Service Nova Scotia and Municipal Relations is required, by legislation, to approve the administrative budget. The Corporation levies fees on loans made to its clients to help offset the administrative expenses of the Corporation. These fees coupled with interest revenue earned by the Corporation on its short-term investments ensure that the Corporation operates in a positive position.

Support staff and resources of the provincial Departments of Finance and Service Nova Scotia and Municipal Relations have been provided to the Corporation. The Corporation contracts with the Department of Justice for the provision of legal services. The advice and assistance given by all three provincial departments are a valuable contribution to the operation of the Corporation.

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7th Floor, Provincial Building
1723 Hollis Street
Halifax, Nova Scotia B3J 2N3

Mailing address:
P.O. Box 850, Station "M",
Halifax, Nova Scotia B3J 2V2

Telephone: (902) 424-4590
Fax: (902) 424-0525
Website: http://www.gov.ns.ca/nsmfc/

Directors And Officers *(as at March 31, 2007)*

Directors of the Corporation

Greg Keefe, CMA, Chair
Deputy Minister
Department of Service Nova Scotia and Municipal Relations

Keith Hunter
Warden
Municipality of the County of Cumberland

Bruce Hetherington
UNSM Appointed Representative
Halifax Regional Municipality

Elizabeth A. Cody
Assistant Deputy Minister
Nova Scotia Department of Finance

James E. Radford, MBA, CA,
Business Consultant
Martins Point, Nova Scotia

Officers of the Corporation

Chair
Greg Keefe, CMA
Deputy Minister
Department of Service Nova Scotia and Municipal Relations

Chief Executive Officer and Treasurer
R. Mark Gilbert, MBA, PhD

Corporate Secretary
Mark Peck
Municipal Advisor
Department of Service Nova Scotia and Municipal Relations

General Counsel
Pauline Doucette, LLB
Senior Solicitor
Department of Justice

Assistant Treasurer
Roy Spence
Director, Liability Management and Treasury
Department of Finance

Directors' Report

Planning for the Corporation is formulated in accordance with the clients' needs. The Corporation must ensure that it has ready access to capital markets and that it has the financial and administrative capacity to respond to local governments' demand for capital infrastructure financing. In order to ensure that the Corporation is successful in meeting the demand for capital infrastructure financing, the Corporation's Board of Directors approves a business plan on an annual basis.

The 2006-2007 Business Plan re-affirms our mission statement to provide competitive capital financing for approved projects to municipalities, municipal enterprises, school boards and hospitals.

Business planning is an evolving process. Outcomes, measures, and indicators are evaluated during the course of the year for effectiveness and responsiveness to the Corporation's longer-term strategic vision. Through the evaluation process, outcomes and measures may be changed to ensure that they are within the Corporation's area of responsibility. The Corporation can influence the outcome and the Corporation's performance can be measured. Data gathered from a 2004 client survey provided the Corporation with information useful in determining benchmark data for performance measurement in our Business Plans.

The strategic goals of the Corporation are supported by the operational priorities. The operational context for the Corporation's activities are strongly influenced by the ability to:

- identify its client needs and respond to them,
- keep abreast of developments in local government capital finance
- maintain financial self-sufficiency

The Annual Report reflects the Corporation's results as measured against the 2006-2007 Business Plan. Along with measuring the longer-term strategic goals of the Corporation, the Annual Report also includes operational results. These operational measures are important in ensuring that the Corporation can meet its priorities and goals.

Business Plan and Accountability Report

The Business Plan features three strategic goals, which are identified below. Outcomes, measures and results are also included.

Strategic Goal 1

To provide capital infrastructure financing to our clients at the lowest available cost, within acceptable risk parameters, to meet their particular debt structure and timing needs.

Outcome:
Competitive financing to our clients in a timely and responsive manner

Measures:
Client satisfaction rates with cost, timing, term and structure of MFC loans

Targets:
A 90% to 100% client satisfaction rate by fiscal 2007-2008.

Regular review of loan procedures and maintaining credit enhancement through access to the provincial guarantee

Operational results:

- Issued 46 loans to 34 municipalities and municipal enterprises
- Issued $107,159,616 in debentures and on-loaned a similar amount to clients
- Participated in four Federation of Canadian Municipalities Green Municipal Fund loans to Nova Scotia municipalities totaling $1,154,650
- Administered $5,284,500 in short-term financing pending issuance of a debenture
- Administered $642.2 million in outstanding debentures, which included the payment of debenture interest
- Administered $642.2 million in outstanding loans to municipalities and hospitals

Strategic Goal 2

To ensure access to capital markets through prudent management of all financial aspects of the Corporation, which includes credit risk and asset/liability management.

Outcome:
Ensure a sustainable source of funding is available for financing requests from clients and to ensure the operation of the Corporation.

Measures:
Client default rates, matching of assets and liabilities, and adoption of a risk management strategy.

Targets:
No defaults, maintain matched asset and liability amounts, adopt risk management plan.

Operational results:
- Reviewed all municipal requests with Service Nova Scotia and Municipal Relations to ensure that the loans to a municipal unit did not pose a credit risk to the Corporation
- Managed asset and liabilities of the Corporation to mitigate risk and to ensure that the Corporation did not incur any negative carry costs
- Managed the administration budget of the Corporation prudently and ended the fiscal year with a net income of $244,543 and a reserve fund balance of $5.612 million
- A risk management framework adopted

Strategic Goal 3

To help build financial management knowledge in municipalities and promote municipal capital project planning and financing

Outcome:
Client awareness of new financial products and features that may help municipal governments; improved MFC products that respond to client needs and increased financial management knowledge in municipalities.

Measures:
Percentage of municipal units that are satisfied with products being offered by the MFC, and existence of effective programs directed at client needs

Targets:
A 90% to 100% client satisfaction rate by fiscal 2007-2008. Development of programs that meet client needs.

Operational results:
- Continued a joint committee with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia and Municipal Relations to promote financial management capacity with a commitment of human and financial resources
- Developed ten best practices modeled on the Government Finance Officers Association (GFOA) recommended best practices. These best practices have been adapted for use by local governments in Nova Scotia
- Developed a marketing and promotions strategy to encourage the implementation of recommended practices in Nova Scotia municipalities
- Continued to promote the MFC's debt affordability model to municipal units
- Worked with eight municipalities who volunteered to pilot the Capital Investment Plan model developed by a Provincial/Municipal/MFC committee
- Enabled four municipalities to access Federation of Canadian Municipalities Green Municipal Fund loans and grants
- Sponsorship of finance professionals in two municipal units to attend the annual GFOA Conference
- Continued participation on committees (municipal and provincial)

Market Conditions 2006-2007

Economic Environment

The Canadian economy slowed throughout the 2006-2007 fiscal year, as reflected in real GDP growth of 2.0 per cent over the period. The relatively strong level of the Canadian dollar continued to moderate the demand for Canadian exports while domestic demand remained strong. The Canadian dollar continued to benefit from strong commodity process through fiscal 2006-2007, improving modestly against the US dollar over the period. At March 30, 2007 the Bank of Canada noon exchange rate stood at 1.1529 versus 1.1671 at March 31, 2006.

Interest Rates

Interest rates moved modestly lower through fiscal 2006-2007. While short-term rates increased slightly, the yields on longer dated bonds in both Canada and the US were slightly lower over the period. Treasury yields on long, thirty year Government of Canada bonds decreased from 4.26 per cent on March 31, 2006 to 4.20 per cent on March 30, 2007 and thirty year US Treasury yields decreased from 4.89 per cent at the beginning of the fiscal year to 4.85 per cent at its end.

The Province of Nova Scotia's spreads continued to remain strong, relative to their provincial peers and the Nova Scotia Municipal Finance Corporation's borrowing costs, which are based on the Province's cost of funds, remained attractive throughout the fiscal year.

The Corporation issued two pooled debenture issues in 2006-2007. The all-in cost of funds to our clients are detailed below.

Spring Issue		**Fall Issue**	
Settled June 1, 2006		*Settled October 24, 2006*	
5 years	4.66%	5 years	4.33%
10 years	4.82%	10 years	4.38%
15 years	4.95%	15 years	4.50%
20 years	5.03%	20 years	4.56%
All-in-Cost	4.79%	All-in-Cost	4.46%

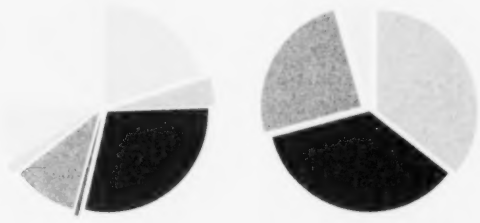
Overview of Loan Portfolio

Loans to Municipal Units, School Boards and Hospitals

The Corporation's loan portfolio consists of loans to municipal units and enterprises that are serviced or guaranteed by Nova Scotia municipalities, loans to school boards that are serviced by the Province of Nova Scotia and loans to hospitals/health authorities guaranteed by the Province. There are no arrears. The Nova Scotia Department of Service Nova Scotia and Municipal Relations performs the credit checks using minister approved debt policy guidelines. The Minister approves all capital borrowing requests by municipal units and municipal enterprises. The Corporation's interest rate risk is minimized by matching the interest rates, term, and features of its debenture issues with those on the loans it makes to its clients.

During the year, long-term loans totaling $108,341,266 were made to 33 municipal units, and 1 municipal enterprise. They were used for the purposes as shown.

Loans Made during the Year



Purpose		Jurisdiction	
Water	20.21%	Regionals	35.73%
Sewer	4.29%	Towns	35.37%
Streets	29.28%	Rural	24.47%
Transit	0.64%	Enterprise	4.43%
Buildings	10.10%		
Electric	1.85%		
Equipment	9.27%		
Recreation	1.04%		
Solid Waste	10.25%		
Land	0.02%		
Sewage Treatment	11.84%		
Other	1.20%		

Note: The amount of debentures issued during the year approximates the long-term loans made.

Schedule of New Loans by Purpose *(By Jurisdiction)*

Purpose	Regional	Town	Rural	Municipal Enterprises	Total
Water	0	14,363,965	2,729,000	4,800,000	$ 21,891,965
Schools	0	0	0	0	0
Hospitals	0	205,830	1,000,000	0	1,205,830
Sewer	1,641,127	1,194,437	1,814,668	0	4,650,232
Streets	22,068,067	9,543,599	100,000	0	31,711,666
Buildings	4,838,099	3,917,346	2,185,000	0	10,940,445
Land	0	0	18,331	0	18,331
Electric	0	2,000,000	0	0	2,000,000
Equipment	8,090,342	1,812,080	142,000	0	10,044,422
Recreation	942,511	185,705	0	0	1,128,216
Solid Waste	378,996	1,977,375	8,750,000	0	11,106,371
Sewage Treatment	689,080	2,372,712	9,761,668	0	12,823,460
Transit	0	697,600	0	0	697,600
Other	56,850	37,878	0	0	94,728
Totals	**$ 38,705,072**	**$ 38,308,527**	**$ 26,500,667**	**$ 4,800,000**	**$108,314,266**

Projects Administered

The accumulated loans outstanding at March 31, 2007 amount to $642.2 million, comprising $632.4 million to 68 municipal units and enterprises and $9.8 million to one district health authority. Effective March 31, 1993, the Province of Nova Scotia assumed all loans related to shareable school and hospital construction. The following table shows the total loans outstanding at the end of each of the last 10 fiscal years, broken down by category.

Ten Year History of Loans to Municipal Units, School Boards and Hospitals

New Long-term Loans during the year:
Fiscal year ending at March 31st (millions)

	Municipal	Hospitals	School Boards	Total
1998	145.4	-	1.4	146.8
1999	105.1	-	-	105.1
2000	84.5	-	2.5	87.0
2001	52.4	-	-	52.4
2002	49.9	-	-	49.9
2003	84.6	11.0	-	95.6
2004	73.1	-	-	73.1
2005	167.7	-	-	167.7
2006	112.0	-	-	112.0
2007	108.3	-	-	108.3

Loans outstanding at Year End:
Fiscal year ending at March 31st (millions)

	Municipal	Hospitals	School Boards	Total
1998	449.3	53.9	128.6	631.8
1999	493.7	53.9	116.2	663.8
2000	508.9	35.3	68.3	612.5
2001	463.4	11.8	25.0	500.2
2002	452.2	10.9	18.7	481.8
2003	469.7	11.0	2.2	482.9
2004	481.5	10.8	0.7	493.0
2005	579.5	10.5	0.3	590.3
2006	611.1	10.2	-	621.3
2007	632.4	9.8	-	642.2

Outstanding Borrowing Program

Funds totaling $108.3 million for loans to municipal units and municipal enterprises were raised through two issues in the Canadian domestic market and from the Federation of Canadian Municipalities Municipal Green Fund loans. The two issues were placed privately with the Province of Nova Scotia which purchased a $51.8 million issue in June 2006 and a $55.2 million issue in October 2006. Interest rate coupons ranged from 4.1 percent.

Other Programs

The Corporation offers borrowing programs beyond long term financing via debenture issue, as well as financial management capacity building programs, to assist municipal units with long-term financial planning.

Borrowing Programs

The Board of Directors has long supported a short term borrowing program for its clients. The Corporation's reserve fund is used to provide short term loans to its clients that have completed their capital project and are awaiting participation in the debenture issue. The terms of the short term loan are for a period of not greater than one year. Interest is charged at a rate of Bank of Montreal's prime lending rate less 1 per cent.

Schedule of Outstanding Loans

By Jurisdiction	Principal March 31/06	New Loans	Principal Repaid	Principal March 31/07
Regionals:				
Halifax	$367,777,198	$33,232,500	($50,135,846)	$350,873,852
Cape Breton	34,088,758	4,974,872	(6,548,810)	32,514,820
Queens	6,372,025	497,700	(749,322)	6,120,403
Total Regionals	**408,237,981**	**38,705,072**	**(57,433,978)**	**389,509,075**
Province of Nova Scotia	**$ 10,184,453**	**$ 0**	**($ 360,973)**	**$ 9,823,480**
Towns:				
Amherst	$ 3,487,843	$ 2,010,463	($ 834,816)	$ 4,663,490
Annapolis Royal	531,998	0	(73,316)	458,682
Antigonish	540,018	3,450,000	(108,004)	3,882,014
Berwick	1,721,480	0	(290,612)	1,430,868
Bridgetown	348,504	282,391	(53,126)	577,769
Bridgewater	3,145,233	4,545,000	(1,696,411)	5,993,822
Canso	835,582	134,500	(169,972)	800,110
Digby	564,120	615,562	(130,780)	1,048,902
Hantsport	1,572,660	250,000	(109,763)	1,712,897
Kentville	7,685,390	575,800	(724,260)	7,536,930
Lockeport	174,000	0	(20,100)	153,900
Lunenburg	215,000	2,745,000	(43,000)	2,917,000
Mahone Bay	92,000	445,000	(40,000)	497,000
Middleton	1,215,555	106,667	(267,865)	1,054,358
Mulgrave	484,880	0	(116,840)	368,040
New Glasgow	5,570,814	625,276	(506,040)	5,690,050
Oxford	1,806,956	197,000	(204,776)	1,799,180
Parrsboro	52,116	0	(8,686)	43,430
Pictou	1,141,298	0	(67,254)	1,074,044
Port Hawkesbury	4,652,500	4,380,800	(292,350)	8,740,950
Shelburne	643,200	0	(68,150)	575,050
Springhill	1,724,680	1,425,466	(175,880)	2,974,266
Stellarton	1,337,395	15,077,002	(184,699)	16,229,698
Stewiacke	1,956,028	175,000	(287,936)	1,843,092
Trenton	565,012	45,750	(195,863)	414,899
Truro	6,739,000	0	(574,250)	6,164,750
Westville	1,355,722	450,850	(455,489)	1,351,084
Windsor	2,301,583	0	(224,542)	2,077,041
Wolfville	4,379,160	771,000	(657,119)	4,493,041
Yarmouth	3,660,900	0	(537,567)	3,123,333
Total Towns	**$ 60,500,629**	**$ 38,308,527**	**($ 9,119,466)**	**$ 89,689,690**

Schedule of Outstanding Loans *continued*

By Jurisdiction	Principal March 31/06	New Loans	Principal Repaid	Principal March 31/07
Rurals:				
Municipalities				
Annapolis	$ 2,923,353	$ 0	($ 421,213)	$ 2,502,140
Antigonish	1,038,332	0	(69,167)	969,165
Barrington	1,218,867	600,000	(205,594)	1,613,273
Chester	8,276,601	1,131,667	(1,673,101)	7,735,167
Clare	0	950,000	0	950,000
Colchester	13,200,000	5,900,000	(6,835,000)	12,265,000
Cumberland	1,833,887	0	(481,552)	1,352,335
Guysborough	2,413,500	0	(117,000)	2,296,500
Hants East	10,940,545	4,117,000	(510,300)	14,547,245
Hants West	168,500	0	(33,700)	134,800
Inverness	300,000	0	(150,000)	150,000
Kings	8,636,129	1,275,000	(1,320,008)	8,591,122
Lunenburg	10,041,700	9,600,000	(2,256,700)	17,385,000
Pictou	525,115	0	(146,217)	378,898
Richmond	2,253,333	2,200,000	(606,667)	3,846,666
Shelburne	8,500	142,000	(8,500)	142,000
Victoria	1,622,000	585,000	(722,000)	1,485,000
Yarmouth	720,000	0	(67,500)	652,500
Villages				
Baddeck	1,130,124	0	(67,493)	1,062,631
Bible Hill	288,000	0	(36,000)	252,000
Chester	132,000	0	(11,000)	121,000
Kingston	357,500	0	(52,500)	305,000
Lawrencetown	8,500	0	(8,500)	0
New Minas	100,000	0	(25,000)	75,000
St. Peters	409,233	0	(28,900)	380,333
Port Williams	88,000	0	(22,000)	66,000
Westport	22,000	0	(5,500)	16,500
Total Rurals	$ 68,655,719	$ 26,500,667	($15,881,112)	$ 79,275,274
Municipal Enterprises:				
Bridgewater PSC	$ 4,180,000	$ 0	($ 290,000)	$ 3,890,000
Digby Housing	659,333	0	(56,333)	603,000
Glen Haven Manor	962,100	0	(35,500)	926,600
Halifax Water	64,912,500	4,800,000	(3,765,250)	65,947,250
Lunenburg Home	908,000	0	(41,710)	866,290
R.K. MacDonald	1,191,794	0	(333,492)	858,302
Seaview Manor	600,250	0	(85,750)	514,500
Villa Acadienne	338,400	0	(48,300)	290,100
Enterprises	73,752,377	4,800,000	(4,656,335)	73,896,042
Total Loans	**$621,331,159**	**$108,314,266**	**($87,451,864)**	**$642,193,561**

Financial Management Capacity Building Programs

Best Financial Management Practices

The NSMFC and the Association of Municipal Administrators of Nova Scotia (AMA) have formed a joint committee with the goal of developing financial management best practices for use by municipalities in Nova Scotia.

The committee strives to be representative of all municipalities in the Province. It includes finance professionals working in towns and regional and rural municipalities, as well as representatives from the Department of Service Nova Scotia and Municipal Relations. The committee uses recommended practices that have been developed by the Government Finance Officers Association (GFOA) and adapts them to fit to Nova Scotia legislation and practices. This year was the committee's fourth year of operation and ten best practices were developed in fiscal 2006-2007.

Long Term Financial Planning

The NSMFC developed a Debt Affordability Model to assist municipalities in capital planning and debt management. A number of municipalities are now piloting the model.

The NSMFC also is leading a Capital Investment Plan Pilot Program initiative using a model developed in partnership with the Province of Nova Scotia and municipal government. In fiscal 2006-2007 there were eight municipal participants.

Municipal Finance Training and Capacity Building Program

The purpose of the Municipal Finance Training and Capacity Building Program is

- to enhance the quality of municipal financial services provided by local government finance professionals in Nova Scotia by exposing them to current issues, best practices and trends in Canadian and international local government finance
- to encourage the development of a network of municipal finance specialists in Nova Scotia for the purpose of sharing knowledge and best practices

The NSMFC, in partnership with the Department of Service Nova Scotia and Municipal Relations, sponsors two financial professionals working in municipal government in Nova Scotia to attend the annual GFOA Conference. This international conference is dedicated to the development of financial excellence in local government, through the use of best practices and bench marking.

Management's Responsibility for Financial Statements

The financial statements of the Nova Scotia Municipal Finance Corporation are the responsibility of management and have been prepared in accordance with PSAB and CICA's accounting principles, which are generally accepted in Canada, applied on a basis consistent with that of the preceding year. The financial information presented elsewhere in the annual report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

The external auditors have examined the financial statements independently. Grant Thornton LLP, have the responsibility to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report, attached to the financial statements, outlines the scope of their examination and contains their opinion.

The Board of Directors has approved the financial statements and all information in the annual report. The external auditors have full and free access to the Board, with and without the presence of management, to discuss auditing, internal control, accounting policy and financial reporting matters.

Auditors' Report to the Directors

To the Directors of
Nova Scotia Municipal Finance Corporation

We have audited the balance sheet of the Nova Scotia Municipal Finance Corporation as at March 31, 2007 and the statements of revenue, expenditure and reserve fund and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Halifax, Nova Scotia
April 18, 2007

Balance Sheet

Year Ended March 31

	2007	2006
ASSETS		
Current		
Cash and cash equivalents	$ 5,753,494	$ 5,323,186
Accrued interest receivable	10,021,832	9,883,629
HST receivable	1,031	673
Accounts receivable	353	-
Principal due within one year on loans to units	92,686,851	87,451,864
	108,463,561	102,659,352
Long-term		
Loans to units (Note 3)	642,193,561	621,331,159
Less principal included in current assets	92,686,851	87,451,864
	549,506,710	533,879,295
Deferred Charges:		
Discount on debenture debt	2,073,267	2,388,291
Less accumulated amortization	1,685,856	1,847,055
	387,411	541,236
	$ 658,357,682	$ 637,079,883
LIABILITIES AND EQUITY		
Current		
Accounts payable	$ 32,155	$ 32,413
Due to municipal units	42,500	140,402
Accrued interest payable	9,992,434	9,851,847
Principal due within one year on debentures	92,662,848	87,177,723
	102,729,937	97,202,385
Employee obligations (Note 7)	87,636	80,520
Long-term		
Debentures payable (Note 5)	642,206,880	621,069,953
Less principal included in current liabilities	92,662,848	87,177,723
	549,544,032	533,892,230
Deferred Credits		
Discount on loans to units	2,067,170	2,381,966
Less accumulated amortization	1,683,014	1,844,595
	384,156	537,371
Equity		
Reserve Fund	5,611,921	5,367,377
	$ 658,357,682	$ 637,079,883

See accompanying notes to the financial statements.

On behalf of the Board

Greg Keefe, Director *James Radford*, Director

Statements of Revenue, Expenditure and Reserve Fund

March 31

	2007	2006
Revenue		
Interest on loans to units	$ 32,924,738	$ 32,778,611
Amortization of discount on loans to units	153,215	188,299
Interest on short term investments	240,185	163,390
Recovery of issue costs	350,685	369,393
Reserve fee	379,101	392,170
	34,047,924	33,891,863
Expenditure		
Interest on debenture debt and short term loans	32,921,473	32,763,270
Amortization of discount on debenture debt	153,824	188,917
Debenture issue expenses	349,528	367,209
Administrative expenses	378,555	282,552
	33,803,380	33,601,948
Net Revenue	244,544	289,915
Reserve Fund, Beginning of the Year	5,367,377	5,077,462
Reserve Fund, End of the Year	$ 5,611,921	$ 5,367,377

See accompanying notes to the financial statements.

Statement of Cash Flows

Year Ended March 31

	2007	2006
Cash provided by (used for)		
Operations		
Net revenue	$ 244,544	$ 289,915
Add (deduct) non-cash items		
Amortization of discount on loans to units	(153,215)	(188,299)
Amortization of discount on debenture debt	153,824	188,917
Amortization of premiums on investments	-	8,811
Change in non-cash working capital (Note 6)	(96,487)	3,381
Increase in accrued public service award	7,116	6,000
	155,782	308,725
Investments		
Issue of loans	(108,314,265)	(112,048,474)
Principal received on loans to units	87,451,864	81,038,164
Principal received on maturing investments	-	433,000
	(20,862,401)	(30,577,310)
Financing		
Issue of debentures	108,314,650	112,048,000
Principal payments on debenture debt	(87,177,723)	(80,999,290)
	21,136,927	31,048,710
Increase in Cash and Cash Equivalents	430,308	780,125
Cash and Cash Equivalents, Beginning of the Year	5,323,186	4,543,061
End of the Year	$ 5,753,494	$ 5,323,186
Cash and cash equivalents includes:		
Cash	$ 126,494	$ 21,820
Short term investments (Note 8)	5,627,000	5,301,366
	$ 5,753,494	$ 5,323,186

See accompanying notes to the financial statements.

March 31, 2007

The Corporation was created by the Municipal Finance Corporation Act which was proclaimed on July 31, 1979. The Corporation began operations on January 1, 1980 and has a March 31 fiscal year-end. The objective of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, regional school boards, and hospitals through a central borrowing authority. The Corporation is not subject to provincial or federal income taxes.

1. Summary of significant accounting policies

A) Discounts on debenture debt and loans to units made prior to the fall issue in 2004 are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method. All debenture debt and loans to units since the fall issue in 2004 are issued at par.

B) The Reserve Fund represents accumulated surpluses and interest earnings on funds which had been advanced by the Province of Nova Scotia and interest on other surplus funds. The purpose of the Reserve Fund is to provide a capital base for the Corporation, as well as to provide funds which may be required for administrative purposes and timing differences.

C) Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management does not anticipate that actual results will differ materially from those estimates.

D) The Corporation recognizes revenue and expenditures on an accrual basis.

E) Cash and cash equivalents include cash on hand, balances with banks, and short term deposits with original maturities of three months or less.

2. Financial instruments

Fair value

The fair values of accrued interest receivable, other receivables, accounts payable, due to municipal units, accrued interest payable and principal due within one year on loans to units and debenture debt are assumed to approximate their carrying amounts because of their short term to maturity. The fair value of investments are disclosed in the financial statements. As the Corporation is a special purpose entity, and there is no comparable outside market, the fair value of the loans receivable and debentures payable was not determinable.

Interest rate risk

The Corporation's mandated rate of interest charged on loans to units is directly matched to its cost of borrowing, thereby providing a hedge against equity erosion.

Credit risk

Due to existing statutory provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required.

It is management's opinion that the Corporation is not exposed to significant interest or credit risks arising from financial instruments.

3. Loans to units

Loans to units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Interest rates on the loans range from 1.0% to 7.0%.

4. Principal payments

Principal payments receivable from units and debentures payable in the next five years are as follows:

	Receivable	Payable
2008	$ 92,686,851	$ 92,662,848
2009	$ 78,614,312	$ 78,606,807
2010	$ 74,041,528	$ 74,094,144
2011	$ 60,325,885	$ 60,324,942
2012	$ 55,427,150	$ 55,422,287

5. Debentures payable

The debenture debt outstanding at March 31, 2007 totalling $642,206,880 (2006 - $621,069,953) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia, with the exception of Series "AT" and the FCM loans which are private placements.

Series	Date Issued	Maturity Date	Interest Rate	Debt Outstanding
AM*	May 12/97	2007	7.000	8,879,000
AN*	Oct. 17/97	2007	6.250	14,231,000
AP*	Jan. 30/98	2008 to 2019	5.750-6.125	32,330,000
AQ	May 15/98	2007 to 2008	5.375-5.500	9,335,000
AR*	Dec. 1/98	2007 to 2008	5.625	17,366,000
AS*	May 17/99	2007 to 2009	5.250-5.375	19,192,000
AT	May 28/99	2007 to 2015	1.000	1,518,750
AU*	Dec. 22/99	2007 to 2009	6.625-6.750	15,156,000
AV*	June 1/00	2007 to 2010	6.75-6.875	10,845,000
AW*	Nov. 9/00	2007 to 2010	6.250-6.375	11,956,000
AX*	May 29/01	2007 to 2011	5.875-6.250	17,202,000
AY*	Nov. 7/01	2007 to 2011	5.250-6.000	10,523,000
AZ*	May 15/02	2007 to 2012	5.375-6.125	34,850,000
BA*	Nov. 7/02	2007 to 2017	4.625-6.000	19,597,000
BB*	Jan. 9/03	2007 to 2023	5.913	9,823,480
BC*	May 28/03	2007 to 2018	4.375-5.750	36,305,000
BD*	Oct. 15/03	2007 to 2018	3.750-5.375	16,175,000
BE*	June 10/04	2007 to 2019	3.750-5.750	21,603,000
BF*	Sept 1/04	2007 to 2024	3.985-5.940	99,000,000
BG*	Nov 25/04	2007 to 2019	3.805-5.325	24,883,000
BH*	June 1/05	2007 to 2020	3.215-4.880	49,749,000
BI*	Nov 22/05	2007 to 2020	3.760-4.830	53,373,000
BJ*	June 1/06	2007 to 2021	4.285-5.080	51,873,000
BK*	Oct 24/06	2007 to 2021	4.095-4.590	55,287,000
FCM-A	Oct 31/06	2007 to 2016	2.550	830,800
FCM-B	Mar. 5/07	2008 to 2017	2.620	323,850
				$ 642,206,880

* Placed directly with the Province of Nova Scotia.

Interest is payable semi-annually, except for Series "AT", which is payable annually.

6. Change in non-cash working capital

	2007	2006
Accrued interest receivable	$ (138,203)	$ 106,123
HST receivable	(358)	(179)
Accounts receivable	(353)	-
Accounts payable	(258)	(2,059)
Accrued interest payable	140,587	(104,689)
Due to municipal units	(97,902)	4,185
	$ (96,487)	$ 3,381

7. Employee obligations

Public service awards

As at March 31, 2007, the Corporation has recorded a liability in the amount of $87,636 (2006 - $80,520) in respect of the provincial public service award for the employees of the Corporation.

Employee future benefits / pension

Permanent employees are members of the Nova Scotia Public Service Superannuation Plan. The cost of pension benefits is the responsibility of the Province of Nova Scotia and accordingly no provision is included in the Corporation's financial statements for pension related amounts. The pension related assets and liabilities are accounted for in the Public Accounts of Nova Scotia.

8. Short-term investments

The Corporation holds short term investments. The investments mature at various intervals during 2007 with interest rates ranging from 4.27% to 5.00% with market values equal to carrying values in 2007 and 2006 fiscal years.

Nova Scotia